

Arizona Health Care Cost Containment System

	FY 2011 ACTUAL	FY 2012 ESTIMATE	FY 2013 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2,983.4	2,975.4	2,217.3 ^{1/}
Personal Services	30,695,900	41,568,400	40,920,900
Employee Related Expenditures	14,089,200	18,735,800	18,541,000
Professional and Outside Services	2,814,700	3,519,300	3,427,100
Travel - In State	63,900	84,500	84,400
Travel - Out of State	17,800	21,700	21,700
Other Operating Expenditures	17,352,500	13,286,100	13,040,900
Equipment	854,700	1,993,100	1,993,100
OPERATING SUBTOTAL	65,888,700	79,208,900	78,029,100
SPECIAL LINE ITEMS			
Administration			
DES Eligibility	36,959,000	53,752,900	53,799,300 ^{2/}
Proposition 204 - AHCCCS Administration	8,030,500	6,632,200	6,635,800
Proposition 204 - DES Eligibility	34,754,300	37,761,000	37,793,600
Medical Services			
Traditional Medicaid Services	3,405,194,000	3,345,721,000 ^{3/}	3,420,887,100 ^{4/}
Proposition 204 Services	2,203,204,700	1,497,856,000	1,166,614,700 ^{5/}
Children's Rehabilitative Services	0	110,126,600	128,599,100
KidsCare Services	52,521,000	36,067,800	21,622,300
ALTCS Services	1,438,128,900	1,229,251,600	1,177,910,000 ^{6/7/}
Payments to Hospitals			
Disproportionate Share Payments	4,202,300	13,487,100	13,487,100 ^{8/}
DSH Payments - Voluntary Match	0	0	28,457,100 ^{9/}
Rural Hospitals	13,871,500	13,858,100	13,858,100
Graduate Medical Education	0	0	90,977,300 ^{10/}
AGENCY TOTAL	7,262,754,900	6,423,723,200 ^{11/}	6,238,670,600 ^{12/13/14/15/16/17/}
FUND SOURCES			
General Fund	1,301,689,300	1,476,449,400	1,397,607,300
Other Appropriated Funds			
Budget Neutrality Compliance Fund	2,338,000	3,161,100	3,221,100
Children's Health Insurance Program Fund	43,659,700	30,176,400	18,126,400
Healthcare Group Fund	1,773,700	3,509,700	2,281,300
Prescription Drug Rebate Fund - State	10,000,000	71,614,500	69,950,000
TPTF Emergency Health Services Account	19,910,300	19,222,900	19,222,900
TTHCF Medically Needy Account	38,295,800	38,295,800	38,295,800
SUBTOTAL - Other Appropriated Funds	115,977,500	165,980,400	151,097,500
SUBTOTAL - Appropriated Funds	1,417,666,800	1,642,429,800	1,548,704,800
Expenditure Authority Funds			
County Funds	238,236,700	302,984,400	294,122,200
Federal Medicaid Authority	5,465,202,100	4,329,535,100	4,049,365,700
Political Subdivision Funds	0	0	40,523,000
Prescription Drug Rebate Fund - Federal	0	0	165,392,300
Third Party Collections Fund	0	194,700	194,700
Tobacco Litigation Settlement Fund	99,161,600	108,211,300	100,000,000
TPTF Proposition 204 Protection Account	42,487,700	40,367,900	40,367,900
SUBTOTAL - Expenditure Authority Funds	5,845,088,100	4,781,293,400	4,689,965,800
SUBTOTAL - Appropriated/Expenditure Authority Funds	7,262,754,900	6,423,723,200	6,238,670,600

	FY 2011 ACTUAL	FY 2012 ESTIMATE	FY 2013 APPROVED
Other Non-Appropriated Funds	116,646,500	94,254,100	55,750,900
Federal Funds	293,292,400	395,650,800	85,521,300
TOTAL - ALL SOURCES	7,672,693,800	6,913,628,100	6,379,942,800

AGENCY DESCRIPTION — The Arizona Health Care Cost Containment System (AHCCCS) operates on a health maintenance organization model in which contracted providers receive a predetermined monthly capitation payment for the medical services cost of enrolled members. AHCCCS is the state's federally matched Medicaid program and provides acute and long-term care services.

- 1/ Includes 618.7 GF and 694.4 EA FTE Positions funded from Special Line Items in FY 2013.
- 2/ The amounts appropriated for the Department of Economic Security Eligibility line item shall be used for intergovernmental agreements with the Department of Economic Security for the purpose of eligibility determination and other functions. The General Fund share may be used for eligibility determination for other programs administered by the Division of Benefits and Medical Eligibility based on the results of the Arizona Random Moment Sampling Survey. (General Appropriation Act footnote)
- 3/ The Arizona Health Care Cost Containment System shall transfer up to \$1,364,300 from the Traditional Medicaid Services line item for FY 2012 to the Attorney General for costs associated with tobacco settlement litigation. (General Appropriation Act footnote)
- 4/ The Arizona Health Care Cost Containment System shall transfer up to \$1,200,000 from the Traditional Medicaid Services line item for FY 2013 to the Attorney General for costs associated with tobacco settlement litigation. (General Appropriation Act footnote)
- 5/ The amounts included in the Proposition 204 - AHCCCS Administration, Proposition 204 - DES Eligibility, and Proposition 204 Services Special Line Items includes all available sources of funding consistent with A.R.S. § 36-2901.01B. (General Appropriation Act footnote)
- 6/ Any Federal Funds that the Arizona Health Care Cost Containment System Administration passes through to the Department of Economic Security for use in long-term administration care for the developmentally disabled shall not count against the long-term care expenditure authority above. (General Appropriation Act footnote)
- 7/ The county portion of the FY 2013 nonfederal portion of the costs of providing long-term care system services is included in the Expenditure Authority fund source. (General Appropriation Act footnote)
- 8/ The \$13,487,100 appropriation for Disproportionate Share Payments for FY 2013 made pursuant to A.R.S. § 36-2903.01O includes \$4,202,300 for the Maricopa County Healthcare District and \$9,284,800 for private qualifying disproportionate share hospitals. (General Appropriation Act footnote)
- 9/ Any monies received for Disproportionate Share Payments from political subdivisions of this state, tribal governments and any university under the jurisdiction of the Arizona Board of Regents, and any federal monies used to match those payments, that are received in FY 2013 by the Arizona Health Care Cost Containment System administration in excess of \$28,457,100 are appropriated to the administration in FY 2013. Before the expenditure of these increased monies, the administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision. (General Appropriation Act footnote)
- 10/ Any monies for Graduate Medical Education received in FY 2013, including any federal matching monies, by the Arizona Health Care Cost Containment System in excess of \$90,977,300 are appropriated to the administration in FY 2013. Before the expenditure of these increased monies, the administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision. (General Appropriation Act footnote)
- 11/ In addition to these amounts, a total of \$693,100 GF, \$137,600 OF and \$693,100 FMA is appropriated in FY 2012 for costs associated with an additional pay period. *(Please see the Agency Detail and Allocations section.)*
- 12/ The non-appropriated portion of the Prescription Drug Rebate Fund is included in the federal portion of the Expenditure Authority fund source. (General Appropriation Act footnote)
- 13/ Before making fee-for-service program or rate changes that pertain to fee-for-service rate categories, the Arizona Health Care Cost Containment System Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 14/ The Arizona Health Care Cost Containment System Administration shall report to the Joint Legislative Budget Committee by March 1 of each year on the preliminary actuarial estimates of the capitation rate changes for the following fiscal year along with the reasons for the estimated changes. For any actuarial estimates that include a range, the total range from minimum to maximum shall be no more than 2%. Before implementation of any changes in capitation rates, the Arizona Health Care Cost Containment System Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee. Before the Administration implements any changes in policy affecting the amount, sufficiency, duration and scope of health care services and who may provide services, the Administration shall prepare a fiscal impact analysis on the potential effects of this change on the following year's capitation rates. If the fiscal analysis demonstrates that these changes will result in additional state costs of \$500,000 or greater for a given fiscal year, the Administration shall submit the policy changes for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 15/ On or before January 7, 2013, the Arizona Health Care Cost Containment System administration and the Department of Health Services shall report to the Director of the Joint Legislative Budget Committee the total amount of Medicaid reconciliation payments and penalties received by that date since July 1, 2012. On June 30, 2013, the administration and department shall report the same information for all of FY 2013. (General Appropriation Act footnote)
- 16/ General Appropriation Act funds are appropriated as Operating Lump Sum with Special Line Items by Agency.
- 17/ In addition to these amounts, the General Appropriation Act included one-time FY 2013 adjustments for a state employee health insurance payment holiday and employee retention payments. These specific adjustments will be allocated to individual agencies at a later time. *(Please see the General Provisions section.)*

AHCCCS' General Fund spending decreases by \$(78,842,100) or (5.3)%. The \$(78,842,100) includes:

- \$26,022,400 for formula adjustments.
- \$(106,928,300) for the elimination of a one-time FY 2012 payment to end the payment deferral.
- \$2,000,000 for an expansion of breast and cervical cancer coverage.
- \$63,800 for statewide adjustments.

FY 2012 Adjustments

Due to the revisions of the original Medicaid Waiver Plan (see page 25 of the FY 2013 Baseline Book for additional information), AHCCCS was estimated to have a General Fund shortfall of \$(223,758,400) in FY 2012. The shortfall was addressed by \$59,657,700 in FY 2012 formula savings, \$51,500,000 in prescription drug savings, and \$112,600,700 from the General Fund in reallocated savings as described in more detail below. An additional \$140,800,000 in Federal Medicaid Authority was added due to a Federal Medicaid Authority shortfall.

Formula Savings

Additional savings of \$(59,657,700) are expected due to lower than budgeted capitation rates, (not associated with provider rate reductions), reconciliation payments, and lower than budgeted caseload growth. These savings will be used to offset the FY 2012 shortfall.

Prescription Drug Rebate Surplus

The FY 2012 budget appropriated \$20,114,500 from the Prescription Drug Rebate Fund (PDRF) to offset AHCCCS expenses. Due to higher than anticipated rebates, an additional \$51,500,000 PDRF supplemental was appropriated and is used to offset a General Fund shortfall.

General Fund Reallocation

The budget reallocated \$112,600,700 from the General Fund and \$231,744,100 from Federal Medicaid Authority in FY 2012. These monies were originally intended to pay the FY 2011 payment deferral obligation at the beginning of the FY 2012. When AHCCCS paid off the FY 2011 payment deferral early, \$112,600,700 from the General Fund became available to offset the FY 2012 shortfalls. In FY 2011, AHCCCS did not defer June capitation payments as they had sufficient funds to cover that cost.

Elimination of Rollover

While AHCCCS paid off the FY 2011 rollover early, the FY 2012 budget had already enacted a rollover of \$344,344,800 in total funds (\$117,688,200 in General Fund) payments from FY 2012 to FY 2013. This rollover has been in place since 2009.

The FY 2013 budget includes a \$112,600,700 General Fund appropriation in FY 2012 to prevent rolling over FY 2012 payments into FY 2013. The remaining amount of

\$5,672,400 is appropriated from the General Fund in FY 2013 as a result of technical timing differences. The difference between the \$112,600,700 FY 2012 payment and the \$5,672,400 FY 2013 payment represents the one-time reduction of \$(106,928,300) in the FY 2013 budget.

Federal Medicaid Authority Supplemental

The revised FY 2012 budget includes an increase of \$140,800,000 from Federal Medicaid Authority due to a shortfall. The shortfall is due primarily to higher expenditure trends in Indian Health Services and other tribal facilities which are 100% federally funded.

FY 2013 Formula Adjustments

Formula adjustments are comprised of changes to caseloads, provider rate increases, and changes to the Federal Medical Assistance Percentage (FMAP). The budget includes no provider rate increases but adjustments are made for both caseloads and the FMAP.

The FMAP is the rate at which the federal government matches state contributions to the Medicaid programs. These rates are set on a state-by-state basis and are revised each year. Typically the federal government provides an approximate 2:1 match for most Medicaid services and a 3:1 match for KidsCare. During FY 2013, the blended FMAP for Medicaid will decline to 66.09% (0.85% decline). The KidsCare rate will decline to 76.26% (0.59% decline). The formula adjustments include an increase in General Fund spending to offset the federal rate decline.

Operating Budget

The budget includes \$78,029,100 and 904.2 FTE Positions in FY 2013 for the operating budget. These amounts consist of:

	<u>FY 2013</u>
General Fund	\$28,047,100
Healthcare Group Fund	2,281,300
Children's Health Insurance Program (CHIP) Fund	1,636,700
Prescription Drug Rebate Fund (PDRF) - State	114,800
Federal Medicaid Authority	45,949,200

These amounts fund the following adjustments:

Healthcare Group Administrative Decrease

The budget includes an agency-requested decrease of \$(1,235,400) from the Healthcare Group Fund in FY 2013 for decreased administrative expenses in Healthcare Group. AHCCCS forecasts enrollment of 5,600 in healthcare insurance in June 2013 compared to 8,300 in June 2011. Healthcare Group's contract limits administrative expenses to 7% of total premium revenues.

Statewide Adjustments

The budget includes an increase of \$55,600 in FY 2013 for statewide adjustments. This amount consists of:

General Fund	22,500
Healthcare Group Fund	7,000
CHIP Fund	3,300
PDRF - State	300
Federal Medicaid Authority	22,500

(Please see the Agency Detail and Allocations section.)

Administration

DES Eligibility

The budget includes \$53,799,300 and 885 FTE Positions in FY 2013 for Department of Economic Security (DES) Eligibility services. These amounts consist of:

General Fund	24,993,300
Federal Medicaid Authority	28,806,000

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$46,400 in FY 2013 for statewide adjustments. This amount consists of:

General Fund	23,200
Federal Medicaid Authority	23,200

Through an Intergovernmental Agreement, DES performs eligibility determinations.

Proposition 204 - AHCCCS Administration

The budget includes \$6,635,800 and 128.1 FTE Positions in FY 2013 for Proposition 204 - AHCCCS Administration costs. These amounts consist of:

General Fund	2,215,300
Federal Medicaid Authority	4,420,500

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$3,600 in FY 2013 for statewide adjustments. This amount consists of:

General Fund	1,800
Federal Medicaid Authority	1,800

Proposition 204 expanded AHCCCS eligibility. This line item contains funding for AHCCCS' administration costs of the Proposition 204 program.

Proposition 204 - DES Eligibility

The budget includes \$37,793,600 and 300 FTE Positions in FY 2013 for Proposition 204 - DES Eligibility costs. These amounts consist of:

General Fund	17,239,400
Budget Neutrality Compliance Fund	3,221,100
Federal Medicaid Authority	17,333,100

These amounts fund the following adjustments:

Statutory Adjustment

The budget includes a decrease of \$(60,000) from the General Fund and a corresponding increase from the Budget Neutrality Compliance Fund (BNCf) in FY 2013 to reflect a statutorily-required increase of county contributions in FY 2013 (A.R.S. § 11-292O). (Please see Table 2 for contributions by county.)

Statewide Adjustments

The budget includes an increase of \$32,600 in FY 2013 for statewide adjustments. This amount consists of:

General Fund	16,300
Federal Medicaid Authority	16,300

Background – The BNCf is comprised of contributions from Arizona counties for administrative costs of the implementation of Proposition 204. Prior to the proposition, the counties funded and administered the health care program for some of the Proposition 204 population.

This line item contains funding for eligibility costs in DES for the Proposition 204 program.

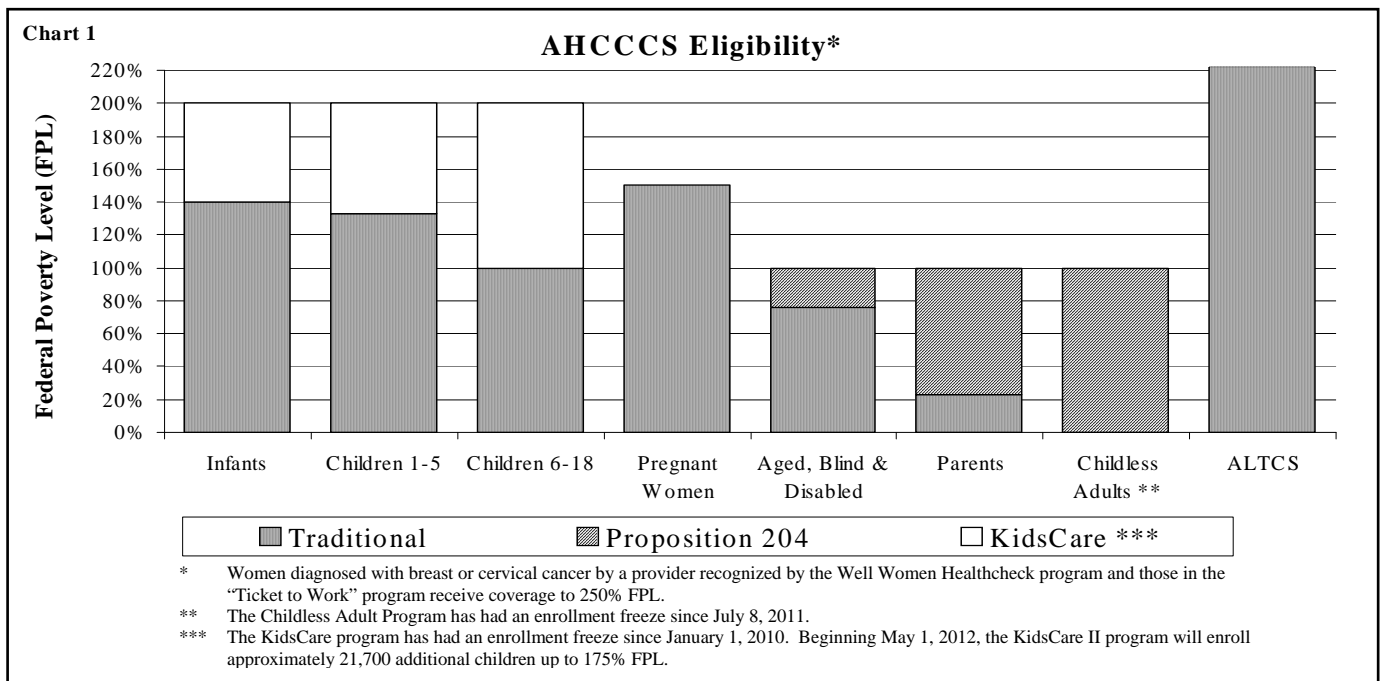
Medical Services

AHCCCS oversees acute care and long term care services, as well as the Children's Rehabilitative Services program. Overall formula adjustments are below. A description of program components can be found in the *Other Information* section.

Traditional Medicaid Services

The budget includes \$3,420,887,100 in FY 2013 for Traditional Medicaid Services. This amount consists of:

General Fund	914,805,100
County Funds	50,901,700
PDRF - State	63,741,300
TTHCF Medically Needy Account	38,295,800
Third Party Collections	194,700
Federal Medicaid Authority	2,201,515,400
PDRF - Federal	151,433,100



These amounts fund the following adjustments:

Formula Adjustment

The budget includes an increase of \$66,185,500 in FY 2013 for formula adjustments. This amount consists of:

General Fund	40,472,200
County Funds	(349,800)
PDRF - State	1,715,600
Federal Medicaid Authority	24,347,500

Prescription Drug Rebates

The budget includes an increase of \$151,433,100 from the federal portion of the PDRF and a corresponding decrease from Federal Medicaid Authority in FY 2013. In previous budgets, the federal portion was non-appropriated. The budget changes the federal portion to Expenditure Authority beginning in FY 2013.

Breast and Cervical Cancer Coverage Expansion

The budget includes an increase of \$8,980,600 in FY 2013 to expand the number who are eligible for breast and cervical cancer coverage. This amount consists of:

General Fund	2,000,000
Federal Medicaid Authority	6,980,600

The Breast and Cervical Cancer program provides AHCCCS coverage for women up to 250% FPL (\$57,600 for a family of 4) who are diagnosed with breast or cervical cancer. Previously, women were only eligible for coverage if they were screened through DHS' Well Women Healthcheck program. The Health and Welfare Budget Reconciliation Bill (BRB) (Laws 2012, Chapter 299) expands eligibility to all women up to 250% FPL who are diagnosed with breast or cervical cancer by a

provider or entity recognized by the Well Woman Healthcheck program.

Background – Traditional Medicaid Services funds the following populations (*see Chart 1*):

- Children less than 1, up to 140% FPL
- Children aged 1-5, up to 133% FPL
- Children aged 6-18, up to 100% FPL
- Pregnant women, up to 150% FPL
- Aged, blind, and disabled adults, up to 75% FPL
- Parents, up to 23% FPL
- Women diagnosed with breast or cervical cancer by a provider recognized by DHS' Well Women Healthcheck program up to 250% FPL
- Individuals aged 16-64 receiving Supplemental Security Income, up to 250% FPL ("Ticket to Work")

Proposition 204 Services

The budget includes \$1,166,614,700 in FY 2013 for Proposition 204 Services. This amount consists of:

General Fund	191,023,200
Tobacco Settlement Fund	100,000,000
TPTF Proposition 204 Protection Account	40,367,900
Emergency Health Services Account	19,222,900
Federal Medicaid Authority	816,000,700

These amounts fund the following adjustments:

Formula Adjustment

The budget includes a decrease of \$(331,241,300) in FY 2013 for formula adjustments due to the childless adult enrollment freeze (*see below*). This amount consists of:

General Fund	(147,920,900)
Federal Medicaid Authority	(183,320,400)

Tobacco Settlement Shift

The budget includes an increase of \$8,211,300 from the General Fund and a corresponding decrease from the Tobacco Settlement Fund in FY 2013 to offset declining Tobacco Settlement funds.

Prescription Drug Rebates

The budget includes an increase of \$8,005,500 from the General Fund and a corresponding decrease from the PDRF in FY 2013. The PDRF funding source has been shifted to the Traditional Medicaid Services line item.

Background – The Proposition 204 program serves individuals with incomes that exceed the income limits for the Traditional population, but are below 100% FPL (*see Chart 1*). Although not technically a Proposition 204 program, in the past, monies for the “spend-down” program have been included in Proposition 204 line items. The “spend-down” program was phased out between May 1 and September 30, 2011. Additionally, the Childless Adult program has had an enrollment freeze since July 2011. The childless adult freeze is expected to end on January 1, 2014 due to requirements in Federal health care legislation. The legislation will not restore the Medicaid “spend-down” program.

Children’s Rehabilitative Services

The budget includes \$128,599,100 in FY 2013 for Children’s Rehabilitative Services (CRS). This amount consists of:

General Fund	43,614,400
Federal Medicaid Authority	84,984,700

These amounts fund the following adjustments:

Formula Adjustment

The budget includes an increase of \$18,472,500 in FY 2013 for formula adjustments. This amount consists of:

General Fund	7,203,800
Federal Medicaid Authority	11,268,700

The formula adjustments assume an enrollment increase, a reduction in the FMAP, and the annualization of provider rate reductions. The appropriation would fund 26,245 members in June 2013, a 10.1% annualized increase above May 2012 enrollment.

The CRS program offers health care to children with handicapping or potentially handicapping conditions.

KidsCare Services

The budget includes \$21,622,300 in FY 2013 for KidsCare Services. This amount consists of:

General Fund	5,132,600
CHIP Fund	16,489,700

These amounts fund the following adjustments:

Formula Adjustment

The budget includes a decrease of \$(14,445,500) in FY 2013 for formula adjustments. This amount consists of:

General Fund	(2,392,200)
CHIP Fund	(12,053,300)

The formula adjustments assume an enrollment decline, a reduction in the FMAP, and the annualization of provider rate reductions. The KidsCare program has had an enrollment freeze since January 2010. The appropriation would fund 7,200 members in June 2013, a (29.3)% annualized decrease below May 2012 enrollment.

In addition to the KidsCare services funded in this line item, approximately 21,700 children will receive services from May 1, 2012 to December 31, 2013 through the KidsCare II program. KidsCare II will be funded by voluntary payments made by political subdivisions. The voluntary payments will be matched by Federal Funds. The majority of the payments will be used for the Safety Net Care Pool (*see the Safety Net Care Pool section*) with some of the monies being used for KidsCare II. KidsCare II is only open to children from 100% to 175% FPL. Monies for KidsCare II are non-appropriated and do not appear in this line item.

While Federal health care legislation will not completely eliminate the freeze, it expands coverage in the Traditional program to 133% FPL beginning on January 1, 2014. This will require a shift of existing enrollees between 100%-133% FPL from KidsCare to Traditional Medicaid Services beginning on January 1, 2014.

Background – The KidsCare program, also referred to as the Children’s Health Insurance Program (CHIP), provides health coverage to children in families with incomes below 200% FPL, but above the levels required for the regular AHCCCS program. The KidsCare program receives an approximate 3 to 1 match rate, which is higher than the regular 2 to 1 match in the other programs. The federal monies are deposited into the CHIP Fund, and the CHIP Fund is then appropriated, along with the General Fund match, to fund the KidsCare program.

ALTCS Services

The budget includes \$1,177,910,000 in FY 2013 for Arizona Long Term Care System (ALTCS) expenditures. This amount consists of:

General Fund	162,594,300
County Contributions	243,220,500
PDRF - State	6,093,900
Federal Medicaid Authority	752,042,100
PDRF - Federal	13,959,200

These amounts fund the following adjustments:

Formula Adjustment

The budget includes a decrease of \$(51,341,600) in FY 2013 for formula adjustments. This amount consists of:

General Fund	7,135,300
County Contributions	(5,663,100)
Federal Medicaid Authority	(52,813,800)

The formula adjustments assume an enrollment increase, a reduction in the FMAP, and the annualization of provider rate reductions. The appropriation would fund 28,800 members in June 2013, a 3.9% annualized increase above May 2012 enrollment. (See *County Contributions* section for additional information.)

Prescription Drug Rebates Increase

The budget includes an increase of \$4,625,100 from the appropriated portion of the PDRF and a corresponding decrease from other sources in FY 2013 to reflect increased prescription drug rebates. This amount consists of:

General Fund	(1,775,800)
PDRF - State	4,625,100
County Contributions	(2,849,300)

Prescription Drug Rebates Shift

The budget includes an increase of \$13,637,300 from the federal portion of the PDRF and a corresponding decrease from Federal Medicaid Authority in FY 2013. In previous budgets, the federal portion was non-appropriated. The budget changes the federal portion to Expenditure Authority beginning in FY 2013.

Background – ALTCS provides coverage for individuals up to 222% of the FPL, or \$24,797 per person. The federal government requires coverage of individuals up to 100% of Supplemental Security Income limit (SSI), which is equivalent to 72% of FPL, or \$8,042 per person.

Clients contribute to the cost of their care based on their income and living arrangement, with institutionalized members contributing more of their income to the cost of

their care. For FY 2011, AHCCCS estimates that client contributions paid for 6.8% of care.

Payments to Hospitals

These line items represent payments made directly to hospitals separate from the traditional capitated or fee-for-service system.

Disproportionate Share Payments

The budget includes \$13,487,100 in FY 2013 for Disproportionate Share Hospital (DSH) Payments. This amount consists of:

General Fund	3,186,500
Federal Medicaid Authority	10,300,600

These amounts fund the following adjustments:

Formula Adjustment

The budget includes a decrease of \$(71,800) from the General Fund and a corresponding increase from Federal Medicaid Authority in FY 2013 due to a change in the federal match rate.

Background – This line item represents supplementary payments to hospitals that serve a large, or disproportionate, number of low-income patients. *Table 1* displays the allocation of Disproportionate Share Funding.

Table 1

Disproportionate Share Hospital Program

<u>Eligible Funding</u>	<u>FY 2012</u>	<u>FY 2013</u>
Public Hospitals	\$ 89,877,700	\$ 89,877,700
Arizona State Hospital (ASH)	28,474,900	28,474,900
Private Hospitals	9,284,800	9,284,800
Total Allocations	\$127,637,400	\$127,637,400
Distribution of Funding		
Federal DSH to GF (Maricopa)	\$ 56,285,400	\$ 54,829,400
Federal DSH to GF (ASH)	19,163,600	18,702,300
Federal DSH to LTCSF	8,541,500	0
Subtotal	\$ 83,990,500	\$ 73,531,700
County-Operated Hospitals	4,202,300	4,202,300
Private Hospitals	9,284,800	9,284,800
Total	\$ 97,477,600	\$ 87,018,800

The state only appropriates General Fund dollars for DSH payments to private hospitals (\$9,284,800 in total funds in FY 2013). Publicly operated hospitals are required to document uncompensated care costs to the federal government through a Certified Public Expenditure (CPE) process. Those CPEs result in the drawdown of Federal Funds. The state retains all of the Federal Funds with the exception of \$4,202,300 which is allocated to Maricopa Integrated Health System (MIHS). Typically AHCCCS deposits all of the Federal Funds in the General Fund. In FY 2012, the FY 2013 Health and Welfare BRB requires

AHCCCS to deposit \$8,541,500 from Federal Funds into DES' Long Term Care System Fund.

The Health and Welfare BRB also limits the DSH payment attributed to MIHS in FY 2012 and FY 2013 to \$89,877,700. This limitation allows MIHS to use monies they spend on uncompensated care as a match for the Safety Net Care Pool and KidsCare II programs and results in the loss of some federal funding which would have otherwise been distributed to the General Fund.

DSH Payments - Voluntary Match

The budget includes \$28,457,100 in FY 2013 for DSH Payments - Voluntary Match. This amount consists of:

Political Subdivision Funds	9,299,600
Federal Medicaid Authority	19,157,500

These amounts fund the following adjustments:

Change to Appropriated Funds

The budget includes an increase of \$28,457,100 in FY 2013 for DSH Payments – Voluntary Match. This amount consists of:

Political Subdivision Funds	9,299,600
Federal Medicaid Authority	19,157,500

In prior budgets, all monies received by AHCCCS from political subdivisions for DSH - Voluntary Match have been non-appropriated. The FY 2013 budget converts the Voluntary Match payments to the regular budget structure. A General Appropriation Act footnote appropriates any monies in excess of \$28,457,100 in FY 2013 to AHCCCS. Before expending any of these monies, AHCCCS is required to notify JLBC and the Governor's Office of Strategic Planning and Budgeting (OSPB).

Background – Beginning in FY 2010, the Health BRB has allowed local governments, tribal governments and universities to provide voluntary DSH payments in order to receive a federal match. In FY 2011, 4 hospitals contributed the state match for \$10,104,665 in DSH payments.

Rural Hospitals

The budget includes \$13,858,100 in FY 2013 for Rural Hospitals. This amount consists of:

General Fund	4,756,100
Federal Medicaid Authority	9,102,000

These amounts fund the following adjustments:

Formula Adjustment

The budget includes an increase of \$143,100 from the General Fund and a corresponding decrease from Federal

Medicaid Authority in FY 2013 due to a change in the federal match rate.

Background – This line item is comprised of 2 programs. The Rural Hospital Reimbursement program increases inpatient reimbursement rates for qualifying rural hospitals. The Critical Access Hospitals program provides increased reimbursement to small rural hospitals that are federally designated as critical access hospitals. In FY 2011, 19 hospitals qualified for funding from Rural Hospital Reimbursement and 10 from Critical Access Hospitals.

Graduate Medical Education

The budget includes \$90,977,300 in FY 2013 for Graduate Medical Education (GME) expenditures. This amount consists of:

Political Subdivision Funds	31,223,400
Federal Medicaid Authority	59,753,900

These amounts fund the following adjustments:

Change to Appropriated Funds

The budget includes an increase of \$90,977,300 in FY 2013 for GME. This amount consists of:

Political Subdivision Funds	31,223,400
Federal Medicaid Authority	59,753,900

In the FY 2012 budget, all monies received by AHCCCS from political subdivisions for GME have been appropriated to AHCCCS via a footnote that permitted AHCCCS to spend whatever was received. The FY 2013 budget converts the Voluntary Match payments to the regular budget structure. A General Appropriation Act footnote appropriates any monies in excess of \$90,987,300 in FY 2013 to AHCCCS. Before expending any of these monies, AHCCCS is required to notify JLBC and OSPB.

Background – The GME program reimburses hospitals with graduate medical education programs for the additional costs of treating AHCCCS members with graduate medical students. While AHCCCS no longer provides any General Fund monies to this program, A.R.S. § 36-2903.01 allows local, county, and tribal governments, along with public universities to provide state match for GME, and entities may designate the recipients of such funds. In 2011, 5 hospitals received a total of \$90,977,300 for Graduate Medical Education.

Other Information

Safety Net Care Pool

In April 2012, AHCCCS received federal approval to establish a Safety Net Care Pool (SNCP) to fund unreimbursed costs incurred by hospitals in caring for the uninsured and AHCCCS recipients through December 31, 2013. SNCP uses voluntary monies from political subdivisions to draw down federal matching monies at a 2:1 match. The funds are then distributed to participating hospitals. As a federal condition of participating in the program, some of the monies must be used to expand KidsCare (*see KidsCare II discussion in the KidsCare line item for more details*). At the time of this writing AHCCCS anticipates that Maricopa Medical Center, Phoenix Children's Hospital and University Medical Center will receive approximately \$332,000,000 in total funds annually through SNCP for uncompensated care. Another \$48,821,700 in total funds in FY 2013 will be used for the KidsCare II program. Monies for SNCP and KidsCare II are non-appropriated and do not appear in the table.

Originally AHCCCS had proposed the creation of the Arizona Health System Improvement Pool (AHSIP), which would have allowed some monies to be used for the expansion of electronic health records and the expansion of trauma centers and emergency departments. The original proposal would have provided \$343,042,000 for the 3 programs, of which \$124,745,000 would have been used for AHSIP, \$173,645,400 for the Safety Net Care Pool, and \$44,651,600 for KidsCare II. Of the \$343,042,000, political subdivisions would have contributed \$113,134,700 and receive a \$229,907,300 federal match. AHSIP was not approved as part of the SNCP. At the time of this writing, AHCCCS is pursuing AHSIP as a separate waiver amendment.

Proposition 202 – Trauma and Emergency Services Fund

In April 2012, AHCCCS received federal approval to obtain a federal match for Proposition 202 - Trauma and Emergency Services Fund. This fund consists of tribal gaming monies received from the Arizona Benefits Fund. Currently, hospitals receive approximately \$20,000,000 annually from this fund. AHCCCS distributes 90% to trauma facilities and 10% to emergency departments. The additional federal match is expected to generate approximately \$13,300,000 annually through December 31, 2013. AHCCCS intends to distribute 40% of the additional money to rural hospitals, 30% to trauma centers, and 30% to emergency departments.

Health and Welfare BRB

The FY 2013 Health and Welfare BRB includes the following provisions:

Changes to Rates

Administrative Costs

Section 21 continues to reduce the risk contingency rate setting for all managed care organizations by 50% and impose a 5.88% reduction on funding for all managed care organizations administrative funding levels.

A risk contingency is added to capitation rates to cover unforeseen circumstances and/or pricing mismatches (e.g. actual trends differ from assumptions). If this risk contingency is not necessary, or is insufficient, it is retained as profit (or loss) and there is no limit. Previously, risk contingency was set at 2%.

In the Acute Care Program, an 8.5% administrative expense had been built into the capitation rates when they are developed. For the ALTCS Program, the administrative expense built into the majority of the capitation rates was 8%; some contractors have a lower percentage.

Ambulance Rates

Section 18 continues to set ambulance payments at 68.59% of the DHS-set rate from October 1, 2012 to September 30, 2013.

Section 3, as permanent law, eliminates the requirement that AHCCCS reimburse ambulance providers in proportion to DHS-set rate. Section 25 exempts AHCCCS from rule making procedures through December 31, 2012 to revise AHCCCS ambulance provider rates.

Outpatient Hospital Fee Schedules

Section 19 allows AHCCCS to not adjust outpatient hospital fee schedules by inflation in the contract year beginning October 1, 2012. Section 34 states that it is the intent of the Legislature that AHCCCS revise its rules to eliminate adjustments to outpatient hospital fee schedules by an inflation index. While statute does not require rates to be adjusted by inflation, currently AHCCCS rules contain this requirement.

Institutional and Noninstitutional Services

Section 20 allows AHCCCS to continue the prior year 5% reduction in payments to institutional and noninstitutional services in the contract year beginning October 1, 2012.

Capitation Rates

Section 35 states that it is the intent of the Legislature that AHCCCS not increase capitation rates more than 3% in FY 2014 and FY 2015.

Services

As permanent law, Section 4 expands AHCCCS coverage to all women under age 65 with an income at or below 250% of the federal poverty level who are diagnosed with breast or cervical cancer by a provider recognized by the Well Women Healthcheck program. Previously only women who were screened through the Well Women Healthcheck program qualified for coverage.

Section 31 requires AHCCCS to monitor contractor compliance and performance requirements in the provision of covered dental services to eligible members.

Erroneous Payments

Section 22 continues to permit AHCCCS to recover erroneous Medicare payments the state has made due to errors on behalf of the federal government. Credits may be used to pay for the AHCCCS program in the year they are received.

Additionally, Section 33 continues to state that it is the intent of the Legislature that AHCCCS comply with the Federal False Claims Act, achieve the maximum savings as possible under the federal act, and to consider best available technologies to reduce fraud.

Available Funding

Section 7 repeals Section 34 of the FY 2012 Health BRB (Laws 2011, Chapter 31) on August 1, 2012. Section 34 allowed AHCCCS to notwithstanding any other law and exempts AHCCCS from rule making authority to implement a program within its available funding. Section 8 requires that any provision enacted using the authority provided in Section 34 of the FY 2102 Health BRB to be permanently authorized by December 31, 2013 in order for the provision to continue beyond that date.

Section 23 authorizes AHCCCS to apply for additional federal funding through December 31, 2013 for trauma centers, emergency departments, and rural hospitals and provides a rulemaking exemption for this through October 1, 2012.

Section 24 provides a rulemaking exemption through October 1, 2012 for the reimbursement methodology for community health center prescription drug costs.

Section 32 continues to state that it is the intent of the Legislature that AHCCCS implement a program within its available appropriation.

Reconciliation Payments

Section 1, as permanent law, requires AHCCCS to deposit reconciliation payments or penalties against program contractors or health plans into the General Fund or the fund from which the appropriation was currently made. It also prohibits these payments or penalties from being credited against future payments to the program or health plan.

Additional Legislation

Skilled Nursing Home Provider Assessments

Laws 2012, Chapter 213 requires AHCCCS to charge a provider assessment on health care items and services provided by nursing facilities beginning on October 1, 2012. The assessment will be used to obtain federal matching monies and used for supplemental payments to nursing facilities for covered AHCCCS expenditures.

Inpatient Hospital Service Payment Methodology

Laws 2012, Chapter 122 eliminates the requirement that AHCCCS reimburse inpatient hospital services using a tiered per diem methodology beginning October 1, 2013. The law further requires that AHCCCS obtain legislative approval prior to adopting a different method of reimbursement.

Reduce Vacant FTE Positions

The FY 2013 budget reduced FTE ceilings for large agencies with a significant number of unfunded, unfilled positions. Although there were variations, the general policy was to reduce the vacancy factor to 10% for agencies with more than 100 FTE Positions. The budget for AHCCCS includes a reduction of (255.1) GF, (109.8) OF, and (393.2) EA FTE Positions in FY 2013 for this policy, incorporated into the figures above.

County Contributions

County governments make 4 different payments to defray the AHCCCS budget's costs, as summarized in *Table 2*.

The counties' single largest contribution is the ALTCS program. Pursuant to A.R.S. § 11-292, the state and the counties share in the growth of the ALTCS program, as defined by the following formula:

1. The growth is split 50% to the state, 50% to the counties.
2. The counties' portion is allocated among the counties based on their FY 2011 ALTCS utilization.
3. Each county's contribution is then limited to 90¢ per \$100 of net assessed property value. In FY 2013, this provision provides 1 county with a total of \$2,317,400 in relief.
4. In counties with an "on-reservation" population of at least 20%, the contribution is limited by an alternative formula specified in statute. In FY 2013, this provision provides 3 counties with a total of \$16,159,700 in relief.
5. If any county would still pay more under the above provisions than under the previous statutory percentages, that county's contribution is limited by a further alternative formula specified in statute. In FY 2013 no counties qualify for this relief.
6. The state pays for county costs above the average statewide per capita (\$40.07 in FY 2013). In FY 2013, this provision provides 6 counties with a total of \$13,296,800 in relief.

In FY 2013, provisions 3 through 6 of the ALTCS formula result in the state providing a total of \$31,773,900 in relief to 9 counties.

The FY 2013 Health and Welfare BRB includes a provision requiring AHCCCS to distribute any excess funding in the ALTCS program in FY 2013 proportionally between the counties and state.

Table 2

County Contributions

County	FY 2012				FY 2013			
	<u>BNCF</u>	<u>Acute</u>	<u>DUC</u>	<u>ALTCS</u>	<u>BNCF</u>	<u>Acute</u>	<u>DUC</u>	<u>ALTCS</u>
Apache	\$ 104,200	\$ 268,800	\$ 87,300	\$ 631,800	\$ 106,200	\$ 268,800	\$ 87,300	\$ 611,200
Cochise	194,300	2,214,800	162,700	5,309,100	198,000	2,214,800	162,700	5,266,800
Coconino	191,700	742,900	160,500	1,896,300	195,400	742,900	160,500	1,834,500
Gila	78,700	1,413,200	65,900	2,113,600	80,200	1,413,200	65,900	2,146,400
Graham	56,000	536,200	46,800	1,430,800	57,000	536,200	46,800	1,434,200
Greenlee	14,400	190,700	12,000	162,300	14,700	190,700	12,000	192,800
La Paz	29,800	212,100	24,900	827,500	30,400	212,100	24,900	625,200
Maricopa	0	20,575,000	0	154,518,900	0	20,225,200	0	148,533,600
Mohave	223,800	1,237,700	187,400	7,335,500	228,000	1,237,700	187,400	8,000,100
Navajo	146,700	310,800	122,800	2,614,500	149,500	310,800	122,800	2,529,300
Pima	1,333,000	14,951,800	1,115,900	39,653,400	1,358,300	14,951,800	1,115,900	39,316,400
Pinal	260,800	2,715,600	218,300	15,702,000	265,800	2,715,600	218,300	15,081,500
Santa Cruz	61,600	482,800	51,600	1,933,300	62,800	482,800	51,600	1,904,900
Yavapai	246,400	1,427,800	206,200	9,586,200	251,000	1,427,800	206,200	8,450,900
Yuma	219,700	1,325,100	183,900	8,017,700	223,800	1,325,100	183,900	7,292,700
Subtotal	\$3,161,100	\$48,605,300	\$2,646,200	\$251,732,900	\$3,221,100	\$48,255,500	\$2,646,200	\$243,220,500
Total				\$306,145,500				\$297,343,300

The FY 2013 Health and Welfare BRB also includes a provision that if the cost of the ALTCS program exceeds the amount specified in the General Appropriation Act in FY 2013 the Director of AHCCCS can charge counties a proportional share of the additional costs.

Program Components

Traditional Medicaid, Proposition 204, KidsCare, and ALTCS services include the following costs:

Capitation

The majority of AHCCCS payments are made through monthly capitated payments. This follows a health maintenance organization (HMO) model in which capitated providers accept a predetermined rate for each member. In FY 2013, the average capitation rate is expected to be approximately \$292 per member per month (or \$3,507 annually). Of that amount, \$99 is from state match and \$193 from Federal Medicaid Authority.

Reinsurance

Reinsurance is a stop-loss program for health plans and program contractors for patients with unusually high costs.

The health plan is responsible for paying all of a member's costs until an annual deductible has been met.

Fee-for-Service

Rather than using Capitation, Fee-For-Service payments are made for 4 programs: 1) federally-mandated services for Native Americans living on-reservations; 2) rural Federally Qualified Health Centers (FQHC); 3) temporary Fee-For-Service coverage for those who leave AHCCCS before enrolling in a capitated plan; and 4) federally-

mandated emergency services for unauthorized and qualified immigrants.

Medicare Premiums

AHCCCS provides funding for the purchase of Medicare Part B (supplemental medical insurance) and Part A (hospital insurance). Purchasing supplemental coverage reduces state expenditures since the federal Medicare program absorbs a portion of the costs. In addition, this includes the cost of premiums for certain disabled workers and low-income Qualified Medicare Beneficiaries.

Clawback

AHCCCS is not required to pay for prescription drug costs for members who are eligible for Medicare. Instead, AHCCCS is required to make "Clawback" payments to Medicare based on a certain percent (78.3% in 2013) of the estimated drug costs.

Tobacco Tax Allocation

Table 3 is a summary of the tobacco tax allocations.

Table 3

Summary of Tobacco Tax and Health Care Fund and Tobacco Products Tax Fund

	FY 2011	FY 2012	FY 2013
Medically Needy Account			
<u>Funds Available</u>			
Balance Forward	\$ 2,836,800	\$ 5,994,500	\$ 6,352,300
Transfer In - Tobacco Tax and Health Care Fund	49,130,000	47,869,700	47,869,700
Transfer In - Tobacco Products Tax Fund	26,883,600	25,950,900	25,950,900
Interest & Refunds	15,500	0	0
Total Funds Available	\$ 78,865,900	\$ 79,815,100	\$ 80,172,900
<u>Allocations</u>			
<i>AHCCCS</i>			
Traditional Medicaid State Match Appropriation	\$ 38,295,800	\$ 38,295,800	\$ 38,295,800
Total AHCCCS Allocations	\$ 38,295,800	\$ 38,295,800	\$ 38,295,800
<i>DHS</i>			
Behavioral Health GF Offset	\$ 34,393,500	\$ 34,767,000	\$ 34,767,000
Folic Acid	182,100	400,000	400,000
Total DHS Allocations	\$ 34,575,600	\$ 35,167,000	\$ 35,167,000
Balance Forward	\$ 5,994,500	\$ 6,352,300	\$ 6,710,100
AHCCCS Proposition 204 Protection Account			
<u>Funds Available</u>			
Balance Forward	\$ 262,800	\$ 19,600	\$ 28,900
Transfer In - Tobacco Products Tax Fund	42,506,400	40,367,900	40,367,900
Transfer In - Emergency Health Services Account ^{1/}	3,900	9,300	0
Interest	900	0	0
Total Funds Available	\$ 42,774,000	\$ 40,396,800	\$ 40,396,800
<u>Allocations</u>			
AHCCCS State Match	\$ 42,487,700	\$ 40,367,900	\$ 40,367,900
Administrative Adjustments	266,700	0	0
Balance Forward	\$ 19,600	\$ 28,900	\$ 28,900
AHCCCS Emergency Health Services Account			
<u>Funds Available</u>			
Balance Forward	\$ -	\$ -	\$ -
Transfer In - Tobacco Products Tax Fund	19,913,800	19,222,900	19,222,900
Interest	5,800	0	0
Total Funds Available	\$ 19,919,600	\$ 19,222,900	\$ 19,222,900
<u>Allocations</u>			
AHCCCS State Match Appropriation	\$ 19,222,900	\$ 19,222,900	\$ 19,222,900
Administrative Adjustments	687,400	0	0
Balance Forward ^{1/}	\$ 9,300	\$ -	\$ -
DHS Health Education Account			
<u>Funds Available</u>			
Balance Forward	\$ 6,310,900	\$ 8,406,100	\$ 6,976,100
Transfer In - Tobacco Tax and Health Care Fund	16,225,400	15,654,000	15,654,000
Transfer In - Tobacco Products Tax Fund	1,991,400	1,916,000	1,916,000
Total Funds Available	\$ 24,527,700	\$ 25,976,100	\$ 24,546,100
<u>Allocations</u>			
Tobacco Education and Prevention Program	\$ 14,601,600	\$ 17,000,000	\$ 17,000,000
Leading Causes of Death - Prevention and Detection	1,520,000	2,000,000	2,000,000
Balance Forward	\$ 8,406,100	\$ 6,976,100	\$ 5,546,100
Health Research Account			
<u>Funds Available</u>			
Balance Forward	\$ 2,429,200	\$ 3,457,600	\$ 2,955,000
Transfer In - Tobacco Tax and Health Care Fund	3,513,600	3,419,200	3,419,200
Transfer In - Tobacco Products Tax Fund	4,984,600	4,805,700	4,805,700
Total Funds Available	\$ 10,927,400	\$ 11,682,500	\$ 11,179,900
<u>Allocations</u>			
Biomedical Research	\$ 7,469,800	\$ 7,227,500	\$ 7,227,500
Alzheimer's Disease Research	0	1,000,000	1,000,000
Biotechnology (Laws 2002, Ch. 186)	0	500,000	0
Balance Forward	\$ 3,457,600	\$ 2,955,000	\$ 2,952,400

^{1/} Any unencumbered funds in the Emergency Health Services Account are transferred to the Proposition 204 Protection Account at the end of each year.

